County of Los Angeles
CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

October 14, 2011

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: William T Fujioka
Chief Executive Officer

LACERA'S ACTION REGARDING TWO ITEMS OF POTENTIAL COST TO THE COUNTY

At a meeting held on October 12, 2011, by the Los Angeles County Employees Retirement Association (LACERA) Board of Investments, there were two "Action Items" of particular interest to the County. The first was to provide LACERA's actuary, Milliman, direction on whether or not to continue to use the Supplemental Targeted Adjustment for Retirees cost-of-living adjustment (STAR COLA) Reserve as a valuation asset. The exclusion of the STAR COLA as an asset would have required the County to increase the LACERA contribution for Fiscal Year (FY) 2012-13 by approximately $34 million.

The second item was to provide Milliman direction on the appropriate economic assumptions for actuarial valuations. Milliman's request was to lower the rate of return assumption on the Plan's assets from the current 7.75% to either 7.25% or 7.50%. To lower the assumption to 7.50% would have had the effect of increasing the County's FY 2012-13 contribution to LACERA by an additional $89 million. Chief Executive Officer, Bill Fujioka; Coalition of County Unions Representative, Blaine Meek; and SEIU Local 721 Representative, Mark Klein, all spoke in opposition to both of the above changes.

With regard to the STAR COLA, the direction LACERA's Board of Investments gave Milliman was to continue including the reserves as a valuation asset. Therefore, there was no negative impact to the County. Regarding the rate of return assumption, the Board of Investments felt compelled to lower the risk assumption from the current 7.75% to 7.50%, however they agreed to phase in the reduction.

In order to ease the impact of this decision to the County, LACERA'S Board of Investments voted to incrementally implement this new assumption over a period of three (3) years. Beginning July 1, 2012, the rate of return will move from 7.75% to 7.70%. On July 1, 2013, the rate will move to 7.60%. On July 1, 2014, the rate will move from 7.60% to a final 7.50%. A summary of the financial impact to the County is shown below:

	FY 2012-13	**FY 2013-14**	**FY 2014-15**
Annual Impact	$13.4 Million	$53.4 Million	$88.8 Million
Cumulative Impact	$13.4 Million	$66.8 Million	$155.6 Million

If you have any questions, please contact me at (213) 974-1101, or Jim Adams at (213) 974-2404.

WTF:JA:rld

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller

LACERA's direction to Milliman